

Comparison of stakeholder theories



1. Compare and contrast stakeholder and stockholder theories. Discuss how each relates to ethics and regulation.

The shareholder theory was described initially by Milton Friedman and it states the traditional view that the maximisation of financial value for shareholders is the ultimate goal of the business (Mansell, 2013). The central idiom of shareholder theory implies that long-term cash surpluses increase shareholder value (Rausch, 2011).

Smith (2003), writes describing some of the misconceptions regarding Shareholder theory clarifying that the increase of profits is clearly restrained by legality. Additionally, there exists the perspective that under shareholder theory, charitable donations are discouraged as they would directly reduce profits however they are supported within the constraints of available capital.

Stakeholder theory was described initially by Edward Freeman and it states that a company has a duty of responsibility to an extended group described as stakeholders. Stakeholders include all individuals which may be affected by the activities of the company for example shareholders, employees, customers, and competitors.

According to Kaler (2006), stakeholder theory has two main ethical functions- firstly, it proposes distributive fairness within a capitalist framework, by distribution of profits to non-shareholder interests as opposed to the shareholders only, and secondly it promotes the concept of corporate social responsibility which produces ethical pressure for companies to adopt obligations to society that transcend shareholder appeasement. Stakeholder

theory has gained popularity in light of recent corporate scandals (Reynolds et al, 2006).

According to Smith (2003) the fundamental distinction between shareholder and stakeholder theory is that stakeholder theory stresses that stakeholder interests are considered even if profits are diminished as a consequence however as all interests are represented and as this includes the shareholders, there is still a requirement to show a profit without which the business would fail.

According to Mansell (2013), it is possible for an organization to maintain and uphold the ethical principles, described in the shareholder theory model, whilst simultaneously upholding those described in the stakeholder theory model by modifying the traditional credo to extend the tenet regarding sole stakeholder focus being maximization of shareholder profit. This is achieved by questioning if the concept of corporate duty to achieve happiness of any non-shareholder contravenes shareholder theory. Mansell maintains that the original shareholder theory is effectively outdated and that his modifications would allow both theories to coexist.

2. List five normative ethical theories and provide a one-paragraph summary of each. How are they similar? Different? You may choose from the following: virtue ethics, deontology, consequentialism, welfarism, egoism, relational ethics, role ethics, and pragmatic ethics.

Deontological theory is determined by the categorical imperative and states that one should act only on axioms which can be reasoned to be universal

laws of nature and to treat humanity in an individual as the end and not the means. Thus ethical behaviour is based on intent.

The virtue approach considers virtuous behaviour such as honesty, kindness, and generosity. When looking at behaviour from an ethical perspective the question is asked are these actions reflective of virtuous behaviour and is it representative of the type of business the bank aspires to. This is similar to deontological theory from the perspective in that its characteristics are intentional.

According to Melchert (2006), consequentialism is a utilitarian moral philosophy in which actions are categorized as morally acceptable or unacceptable according to their consequences. This theory opposes Deontological theory in that the deontological approach is to judge according to the intention of the individual rather than the consequence of the action whereas the action in consequentialism is absolute.

According to Gravel and Moyes (2013), welfarism describes a number of normative approaches which rank social states based upon the distribution of welfare levels. An prime example of one of these approaches is utilitarianism, Utilitarianism has its roots in early Greek philosophers who reasoned that the best life is one that causes the least amount of suffering. Utilitarian theory states the principle focus is maximizing utility. In the field of business ethics, utility equates to the increase in happiness with the reduction of suffering.

Ethical egoism is often described as the traditional business model (Debeljak and Krkac, 2008) who debated that opposing the concept of Friedman that <https://assignbuster.com/comparison-of-stakeholder-theories/>

the only goal in business is the generation of profit, there are ethics in business namely egoistic business ethics. As is the case in business and other interests, additional factors are essential besides self-interest such as the right to exercise freedom of choice and continuous concern. Self-interest can only be achieved if all conditions are met therefore if the individual maintains the conditions for themselves, they are met for all.

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